

Faster Payments Tracker™

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WHAT'S INSIDE

Faster payments systems are experiencing a rapid rise in use. Same Day ACH saw a [192 percent](#) increase in transactions in Q3 2018 over the same period in 2017, according to a recently released report from NACHA – The Electronic Payments Association. Elsewhere, EBA Clearing [announced](#) that its RT1 instant payments system processed more than 5 million transactions across Europe between November 2017 and October 2018.

But bringing together different faster payments systems could help the space expand even further. According to a recent [report](#), the lack of operability between the schemes could prevent them from reaching new markets, especially in emerging economies.

Major players are also realizing that faster payments systems can benefit from collaboration. EBA CLEARING, in response to users' requests, has begun [working](#) with SWIFT to better align its real-time gross settlement (RTGS)-equivalent payment system, EURO1, with other schemes. For EBA CLEARING, that means migrating EURO1 onto the ISO 20022 standard to bring the platform in line with the Eurosystem's TARGET2 RTGS system, as well as EBA CLEARING's own RT1 and STEP2, its pan-European Automated Clearing House.

Around the faster payments world

Expanding faster payments offerings also requires making it easier for financial institutions (FIs) to offer them, and many players in the space are doing just that.



The Faster Payments Playbook Project Team from NACHA's Payments Innovation Alliance, for one, is helping FIs navigate faster payments schemes and determine their strategies. The team recently held its first in-person meeting to [discuss](#) the key elements needed in a Faster Payments Playbook, which it plans to complete by the end of this year.

Elsewhere in the U.S., another group wants to boost the availability of faster payments. The Governance Framework Formation Team (GFFT) recently [formed](#) the U.S. Faster Payments Council (FPC),



which is charged with creating a ubiquitous, secure faster payments system to send funds almost immediately to anyone, anywhere and at any time.

Other services want to bring faster payments options to smaller FIs. Financial services software provider Finastra recently [announced](#) it will offer a cloud-based solution that will cater to small and mid-sized banks. The offering, called Fusion Global PAYplus, will target FIs that might be unable to afford non-cloud-based immediate payments solutions.

SIA's third-party approach to RTGS

Some countries are turning to third-party providers to up their RTGS system capabilities. Many central

banks' existing solutions need serious upgrades, while others who've never used such a service must determine how best to implement one. But they don't have to go it alone, according to Mario De Lorenzo, director of [SIA's](#) Central Institutions Division.

In this month's feature story (p.6), De Lorenzo tells PYMNTS how third-party providers can leverage the insights gleaned from all of their clients to strengthen central banks' RTGS systems. He also discusses the challenges of serving numerous central banks with different needs and ensuring that, even if a massive cyberattack hits, their systems stay running.



FIVE FAST FACTS

43.2M

Total number of Same Day ACH payments made in Q3 2018

70%

Share of businesses that see benefit in real-time payments' instant funds availability

\$6.8B

Global market value of real-time payments in 2018

100,000

Number of instant payments processed by RT1 on Oct. 15, 2018

116M

Number of payments processed by the Zelle Network in Q3 2018



SIA's RTGS Strategy

Central banks must work hard to keep up with the ever-changing payments landscape. By 1990, many countries — including Japan and Switzerland — had RTGS [systems](#) in place to rapidly clear and settle high-value transactions. Some, like [Denmark](#), debuted their in-house solutions in the early 2000s. But as countries continue to demand more from their RTGS offerings, many are realizing that such aging services no longer meet their needs.

While central banks with legacy RTGS systems are pondering their next moves, others are looking to incorporate the technology for the first time. In both cases, many are turning to third-party providers for their solutions instead of updating or building their own infrastructures.

One such provider is [SIA](#), which designs, develops and manages RTGS infrastructure for central banks and FIs. Mario De Lorenzo, the company's Central Institutions Division director, said third parties can often create more robust solutions than those

developed in-house. In a recent interview, he told PYMNTS what it takes for providers to work with and meet the needs of different central banks while keeping systems secure.

Pooled Insights

Countries adopting newer payments infrastructure can learn much from others who have already done so, and SIA channels these insights from its client base to improve its offerings. The company provides clients the same base RTGS solution, but customized to meet each customer's needs. In fact, De Lorenzo said SIA holds an annual conference with its clients to get their input and advice on improving said system.

"The evolution of the product is based on the input of our customer community," he said. "Thanks to the contributions of all these customers, our system has been advancing in the last few years."

SIA primarily serves central banks in the Middle East, Africa and Europe, and it recently added Denmark, Sweden, Iceland and Norway to its client list. New Zealand is also slated to join the ranks in 2019.

Deployment challenges

Working with such a diverse client base poses its own challenges, De Lorenzo claimed, and SIA's solution must be flexible enough to serve central banks with either sophisticated or basic systems.

"The level of maturity and readiness and need of the central banks that we serve is different," he said. "And, because of that, we need to have a flexible product suitable to cope with the needs of both the sophisticated [systems] and with other less advanced, more basic [ones]."

Serving clients with an existing RTGS system, as it did with Sweden's central bank, means SIA must satisfy customers who are used to certain capabilities. In these cases, the company must meet those expectations to ensure a smooth transition onto its platform. On the other hand, SIA's main challenges for clients that don't have a solution include getting them onboarded and ready for the system, De Lorenzo noted.

SIA also has to satisfy current needs while anticipating what will be required of its RTGS system in the future. De Lorenzo expects blockchain to become more important, and, as such, SIA's offering enables integration with solutions based on distributed ledger technology (DLT).

"At the moment, the [DLT] is still not mature," he explained. "It is applicable to some specific use

cases, but we would expect in the future that it will take place more and more. Because of that, our system has been already proofed for a possible integration with DLT systems."

De Lorenzo has also observed that, as around-the-clock instant payments systems continue to proliferate, demand for 24/7 capable RTGS systems will likely increase as well.

"The processing of instant payments [creates] some expectations also in the RTGS — namely, one strong request from the market is [to have] RTGS working around the clock to reduce the liquidity risk," he said.

Supporting security

Despite the evolving nature of the RTGS space, one need has remained constant: security. To protect its customers, SIA follows recommendations from centralized organizations, uses secure networks — like SIANet or SWIFT — and maintains cybersecurity departments.

The company runs both static and dynamic security simulations, as well as

penetration tests, on its infrastructure, De Lorenzo said. Allowing sufficient time for the final stage of testing — which involves the simulation of a live environment — is also critical to SIA's security efforts.

Should these strategies fail to stop a major attack from taking down the RTGS system, SIA has a plan to quickly get it back online. Central banks already operate with secondary sites, which can [manage](#) the RTGS system should something happen to the primary site to make it necessary. But to further bolster protection, the company supplies a third site.



THE EVOLUTION OF THE PRODUCT IS BASED ON THE INPUT OF OUR CUSTOMER COMMUNITY



“Our solution is that the account balances are mirrored in real-time, rather than in a deferred way to this third site, outside the country,” De Lorenzo explained, “meaning that even in the case of cyberattacks jeopardizing the integrity of the data on the primary site, our users can resume their operation in a different manner by restarting the system on the third pole.”

As more countries embrace the potential of RTGS systems, they must carefully consider how to ensure security and meet client needs — as well as whether their best option is an in-house or third-party solution.



UNDER THE HOOD



Which types of liquidity management needs do you see regarding RTGS?

“The cost of liquidity is becoming more and more important for commercial banks. Because of that, the RTGS system — which is basically in charge of moving liquidity from one account to another at the central bank — should be sophisticated to reduce the need for mobilization of certain amounts of liquidity.

For example, an instant payments system normally works using a prefunded account, meaning [that’s where] the bank should put the central bank’s money to guarantee the correct settlement of the payment after the beneficiary account has been credited. In general, there is more and more need for the banks to reserve liquidity.

The more sophisticated and optimized RTGS is in terms of liquidity management, the more the bank can reduce cost. According to our estimates, thanks to the adoption of our RTGS system, the need for liquidity for the financial institution could be reduced by 30 percent.”

MARIO DE LORENZO

Central Institutions Division director at [SIA](#)

News & Trends

UPPING USAGE

Same Day ACH volume on the rise

Same Day ACH is ending the year with strong growth. According to NACHA, Same Day ACH payments totaled [43.2 million](#) in Q3 2018 – an increase of nearly 200 percent over last year’s third quarter. ACH debit and credit payments, led by B2B and online transactions, also rose during Q3 2018. Online ACH payments jumped by 14 percent during that quarter to hit 1.5 billion transactions total, while B2B payments rose by 10 percent to total 896 million.

EBA CLEARING’s RT1 clears 5 million transactions

Meanwhile, EBA CLEARING has [reported](#) that its RT1 system processed more than 5 million transactions in the 11 months since its launch last November. The solution has also onboarded more than 1,000 payment service providers across 12 countries, with 32 institutions participating.

Daily usage volumes have also increased, driven largely by the advancement of instant payments efforts in Estonia, Latvia and Lithuania, according to EBA. In addition, RT1 hit a new daily record of more than 100,000 payments processed on Oct. 15, 2018. In a statement, EBA CLEARING CEO Hays Littlejohn claimed that nearly all RT1 transactions, including both domestic and cross-border European payments, are processed in just a few seconds.

BANKING ON NEW SERVICES

Crédit Agricole launches instant payments in Italy

EBA CLEARING’s RT1 is also seeing more traffic, with French bank Crédit Agricole’s Italian operation [announcing](#) the launch of real-time payments capabilities using the infrastructure. The new functionality allows payments up to €15,000 (about \$17,000 USD) to be made on any day at any time, and is accessible through desktop and mobile online platforms.

The new service also aligns Crédit Agricole Italia with the European Payments Council’s SEPA Instant Credit Transfer scheme. Crédit Agricole Italia is connecting to EBA CLEARING’s RT1 setup through the EasyWay platform offered by SIA, a technology infrastructure and services provider.

Citizens Bank to bring real-time to corporate customers

Meanwhile, FIs in the U.S. are also upping their faster payments capabilities. Citizens Bank – a member of The Clearing House and supporter of its Real-Time Payments (RTP) service – recently announced that it would introduce real-time payments services to its corporate clients in 2019. The FI will eventually let customers initiate transactions through an application program interface (API), file transmission or commercial online banking platform.

Matt Richardson, Citizens' head of product solutions in treasury management, [noted](#) that more consumers around the world expect real-time payments services, and that businesses value the information and visibility they offer. For the U.S. to keep pace, he claimed, real-time payments must become ubiquitous, or firms will face hurdles when dealing with different banks' customers.

Finastra announces faster payments solution for smaller banks

But helping faster payments systems spread throughout the space means getting small and mid-sized banks on board as well — and that's what Finastra, a financial services software provider, [aims](#) to do. The company recently unveiled an upcoming instant payments solution targeting smaller and mid-sized FIs in the U.S. and European Union.

The solution, called Fusion Global PAYplus, was unveiled at the Sibos and Money 20/20 conferences in October and is set to debut in 2019. The company said the cloud-based service, based on Microsoft Azure, will make real-time payments easier to provide for FIs that might otherwise find launching their own systems too expensive, time consuming and burdensome. The nature of the service also allows it to provide automatic software and payments system updates, Finastra said, and it will process end-to-end transactions within seconds.

Faster Payments Playbook team has first in-person meeting

While some FIs readily adopt new faster payments services, others need guidance to help them enter the space. To that end, the Faster Payments Playbook Project Team — created by NACHA's Payments Innovation Alliance — has been providing resources that can help FIs and businesses better understand and incorporate the systems.



The team recently [held](#) its first in-person meeting to determine key topics — including business strategy, faster payments opportunities and risk mitigation and compliance, among others — that it will include in its Faster Payments Playbook. The group also reviewed the *Introduction to Faster Payments in the U.S.* guidebook to provide feedback on updates and additions. Members will meet again on Dec. 12 and 13, and hope to complete the playbook by Dec. 31.

BUILDING A BETTER SYSTEM

GFFT launches U.S. Faster Payments Council

Other groups are also trying to broaden the acceptance of faster payments systems. The GFFT recently [announced](#) the formation of the FPC, which will work to make faster payments more



widely available in the U.S. The organization's overall goal is to allow safer and more secure payments to be made to anyone, anywhere and at any time, with the funds provided almost immediately.

According to the GFFT, industry players throughout the payments ecosystem provided more than 1,000 comments that shaped the FPC's mission to address hurdles to faster payments adoption — specifically in the private sector. The GFFT is a 27-member group [established](#) in 2017 by the Faster Payments Task Force to facilitate faster payments in the U.S. marketplace.

EBA announces Request to Pay Task Force

A task force in Europe is also crafting recommendations on faster payments' adoption. EBA CLEARING recently launched its Request to Pay Task Force to create a pan-European Request to Pay (R2P) solution, which would bring more convenience and transparency to payments. The task force's mission includes developing an R2P framework and delivering it in the first half of 2019, according to a [press release](#). Group members hail from 28 different FIs in 14 countries.

ALIGNING AND INTEROPERABILITY

EBA CLEARING, SWIFT to migrate EURO1 to ISO 20022

EBA CLEARING is also updating its pan-European faster payments offering, announcing with financial messaging service SWIFT that the pair is moving EURO1 — an RTGS-equivalent system for single, same-day large-value euro payments — onto the ISO 20022 standard.

EBA CLEARING CEO Hays Littlejohn [said](#) the move will help users more effectively monitor and manage their central payment capabilities. The firms said the migration will better align EURO1 with the TARGET 2 platform as well as EBA's other services, including STEP2 and RT1. The move is slated for completion by November 2021.

Report highlights faster payments growth

A new [report](#) suggests interoperability has a significant effect on real-time payment systems' growth. The global real-time payments market, currently worth \$6.8 billion, is expected to grow at a compound annual growth rate (CAGR) of 30.6 percent and be valued at \$25.9 billion by 2023.

Increased consumer demand, governments' efforts to promote faster payments, the proliferation of cloud-based solutions and widespread smartphone use are all propelling the market's expansion. A lack of collaboration between systems is expected to temper growth, however, especially in emerging economies.

CROSS-BORDER PAYMENTS

Citi Payment Insights expands

As the faster payments space continues to grow, FIs and other players are boosting the availability of their solutions. Citi's Treasury and Trade Solutions,

for example, recently [announced](#) that its Citi Payments Insights offering is now available in 20 new markets, bringing the total to 70 worldwide. The company announced that its FI clients can now access the solution, previously only offered to corporate and public sector customers.

Citi Payments Insights, which [launched](#) in July, gives clients greater visibility into cross-border payments and enables them to respond more quickly. It provides information on payments' processing statuses, timelines, charges deducted by correspondent banks and amounts credited to the beneficiary. The solution also works with Citi's CitiDirect BE electronic banking platform for on-demand payments.

Visa makes new announcement on B2B Connect

Visa is also setting its sights on cross-border payments, recently disclosing more details about its upcoming Visa B2B Connect solution. The service, set to debut in Q1 2019, will provide a distributed ledger platform to help businesses quickly and securely process high-value cross-border B2B payments. The solution sends transactions directly from the originating bank to the recipient FI through the platform, and also tokenizes account numbers and other details to curb fraud.

Kevin Phalen, global head of Visa Business Solutions, said in a [press release](#) that he expects B2B Connect to support FIs' supply chain, trade and institutional banking payments.



FEEDBACK

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